

Webcast: Valuing Digital Assets: Cryptocurrencies - Do They Fit in the Fair Value Accounting Model Required of Investment Companies?

Question

There seems to be confusion and divergence in practice in assessing how to classify Digital Assets. Are they Financial Instruments, Intangible Assets, Inventory, or something else.; and what accounting principles apply?

Response

Depending on the nature of the Digital Asset, ICO, pre-ICO, etc., it could have features that would result in divergent classification. However, for Investment Companies, as dictated by FASB ASC Topic 946, all investments must be reported at Fair Value consistent with FASB ASC Topic 820.

Question

Should a subjective discount on market pricing for illiquidity or ability to sell (i.e., cold storage takes x days to get to market) be applied?

Response

FASB ASC Topic 820 requires that the fair value of "actively traded" investments be reported as P * Q (price times quantity), without discount. Actively traded is defined as trading with sufficient volume and frequency to determine a price. Judgment is required to determine if actively traded. If an investment is not deemed actively traded, then the observable trading price would still be included in the fair value assessment along with other indications of value.

Question

What are the methods to value Pre-ICO, non-exchange traded digital assets?

Response

Each situation must be evaluated based on facts and circumstances. In many instances Pre-ICO's are comparable to early stage venture investments. The under development

AICPA PE/VC Valuation Guide (publication expected July 2019) provides guidance for valuing early stage investments and complex capital structures. Scenario Analysis, Milestone achievement, and the price of investment may be helpful in estimating value.

Question

In estimating fair value a determination of the 'principal market' or 'most advantageous market' is required. Should the focus be only on the price that can be achieved, or can we apply additional standards such as risk exposure (volatility, microstructure noise etc.), investor protection, regulation etc.?

Response

The principal market is the market that the investment company has access to. Some exchanges may not be accessible. The most advantageous market would include all of the considerations posed in the question.

Question

VWAP and Coin Market Cap have been used by some as pricing sources. Some auditors question their use.

Response

Indices can provide indications of fair value. They may or may not be sufficient for documenting fair value on a standalone basis, as they reflect aggregates of prices and may not reflect the principle market or the most advantageous market. Investment Companies investing in digital assets is a relatively recent development. Some managers do use VWAP pricing sources out of expediency and the lack of deemed credible alternatives. The difficulties posed by using indices does not remove the obligation of Investment Companies to report on a fair value basis. As such significant judgement is required as the market and data sources evolve.



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